

# Economic and Financial Services Outlook

## Western Independent Bankers Directors Conference

William S. Haraf, Commissioner  
California Department Of Financial Institutions  
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# Topics for Today

- Quick overview of economic and banking conditions
- Risks to growth
  - Europe
  - Potential for fiscal and monetary mistakes
- Lessons learned for the markets
- Lessons learned for bank directors

# Characteristics of Post-Crisis Environments

- Lengthy period of economic underperformance
- Substantial financial sector losses
- Sharp contractions in credit availability
- Sovereign risk elevated

**Table 1.1. Indebtedness and Leverage in Selected Advanced Economies<sup>1</sup>**

(Percent of 2011 GDP except as noted)

	United States	Japan	United Kingdom	Canada	Euro area	Belgium	France	Germany	Greece	Ireland	Italy	Portugal	Spain
Government gross debt, 2011 <sup>2</sup>	100	233	81	84	89	95	87	83	166	109	121	106	67
Government net debt, 2011 <sup>2,3</sup>	73	131	73	35	69	80	81	57	n.a.	99	100	102	56
Primary balance, 2011 <sup>2</sup>	-8.0	-8.9	-5.6	-3.7	-1.5	-0.3	-3.4	0.4	-1.3	-6.8	0.5	-1.9	-4.4
Households' gross debt <sup>4</sup>	92	77	101	n.a.	70	53	61	60	71	123	50	106	87
Households' net debt <sup>4,5</sup>	-232	-236	-184	n.a.	-126	-195	-137	-132	-57	-67	-178	-123	-78
Nonfinancial corporates' gross debt <sup>4</sup>	90	143	118	n.a.	138	175	150	80	74	245	110	149	192
Nonfinancial corporates' debt over equity (percent)	92	181	83	70	106	48	69	92	182	90	125	136	134
Financial institutions' gross debt <sup>4</sup>	94	188	547	n.a.	143	112	151	98	22	689	96	61	111
Bank leverage <sup>6</sup>	12	24	24	18	26	30	26	32	17	18	20	17	19
Bank claims on public sector <sup>4</sup>	8	80	9	19	n.a.	23	17	23	28	25	32	24	24
Total economy gross external liabilities <sup>4,7</sup>	151	67	607	98	169	390	264	200	202	1,680	140	284	212
Total economy net external liabilities <sup>4,7</sup>	16	-54	11	12	13	-40	10	-41	104	98	26	106	88
Government debt held abroad <sup>8</sup>	30	15	19	16	25	58	50	41	91	61	51	53	28

## Size matters: Big bank assets as a percentage of GDP

### Top 5 banks by asset size for selected countries

Swiss banks	Assets (\$B)	Assets/GDP (%)
UBS AG	1,410.9	269.21
Credit Suisse Group AG	1,105.4	210.91
Zürcher Kantonalbank	134.7	25.70
Banque Cantonale Vaudoise	37.9	7.23
Migros Bank AG	35.7	6.81
Total	2,724.6	519.86

U.K. banks	Assets (\$B)	Assets/GDP (%)
HSBC Holdings Plc	2,454.7	109.09
Barclays Plc	2,332.7	103.67
Royal Bank of Scotland Group Plc	2,276.2	101.16
Lloyds Banking Group Plc	1,552.7	69.01
Standard Chartered Plc	516.6	22.96
Total	9,132.8	405.89

French banks	Assets (\$B)	Assets/GDP (%)
BNP Paribas SA	2,680.3	104.59
Crédit Agricole Group	2,321.9	90.61
Société Générale SA	1,518.5	59.26
Groupe BPCE	1,406.4	54.88
Crédit Mutuel Group	793.2	30.95
Total	8,720.3	340.29

German banks	Assets (\$B)	Assets/GDP (%)
Deutsche Bank AG	2,556.2	77.05
Commerzbank AG	1,011.8	30.50
Deutsche Zentral-Gen. AG	514.4	15.51
Landesbank Baden-Württemberg	502.2	15.14
Bayerische Landesbank	424.4	12.79
Total	5,008.9	150.99

Italian banks	Assets (\$B)	Assets/GDP (%)
UniCredit SpA	1,246.8	60.77
Intesa Sanpaolo SpA	883.6	43.07
Cassa di Risparmio di Padova e Rovigo	350.0	17.06
Banca Monte dei Paschi di Siena SpA	327.7	15.97
Banco Popolare Società Cooperativa	181.3	8.84
Total	2,989.4	145.70

#### 2010 Nominal GDP

Country	GDP (\$B)
U.S.A.	14,526.6
Germany	3,317.4
France	2,562.6
U.K.	2,250.1
Italy	2,051.8
Canada	1,577.0
Switzerland	524.1



U.S. banks	Assets (\$B)	Assets/GDP (%)
Bank of America Corp.	2,264.9	15.59
JPMorgan Chase & Co.	2,117.6	14.58
Citigroup Inc.	1,913.9	13.18
Wells Fargo & Co.	1,258.1	8.66
U.S. Bancorp	307.8	2.12
Total	7,862.3	54.12

Canadian banks	Assets (\$B)	Assets/GDP (%)
Royal Bank of Canada	712.7	45.19
Toronto-Dominion Bank	608.0	38.55
Bank of Nova Scotia	516.8	32.77
BMO Financial Group	404.0	25.62
Canadian Imperial Bank of Comm.	345.5	21.91
Total	2,586.9	164.04

GDP = nominal gross domestic product.

Data originally reported in native currency and has been converted to U.S. dollars at the prevailing spot rate on Dec. 31, 2010.

Only one company per corporate structure shown to avoid overlapping of data.

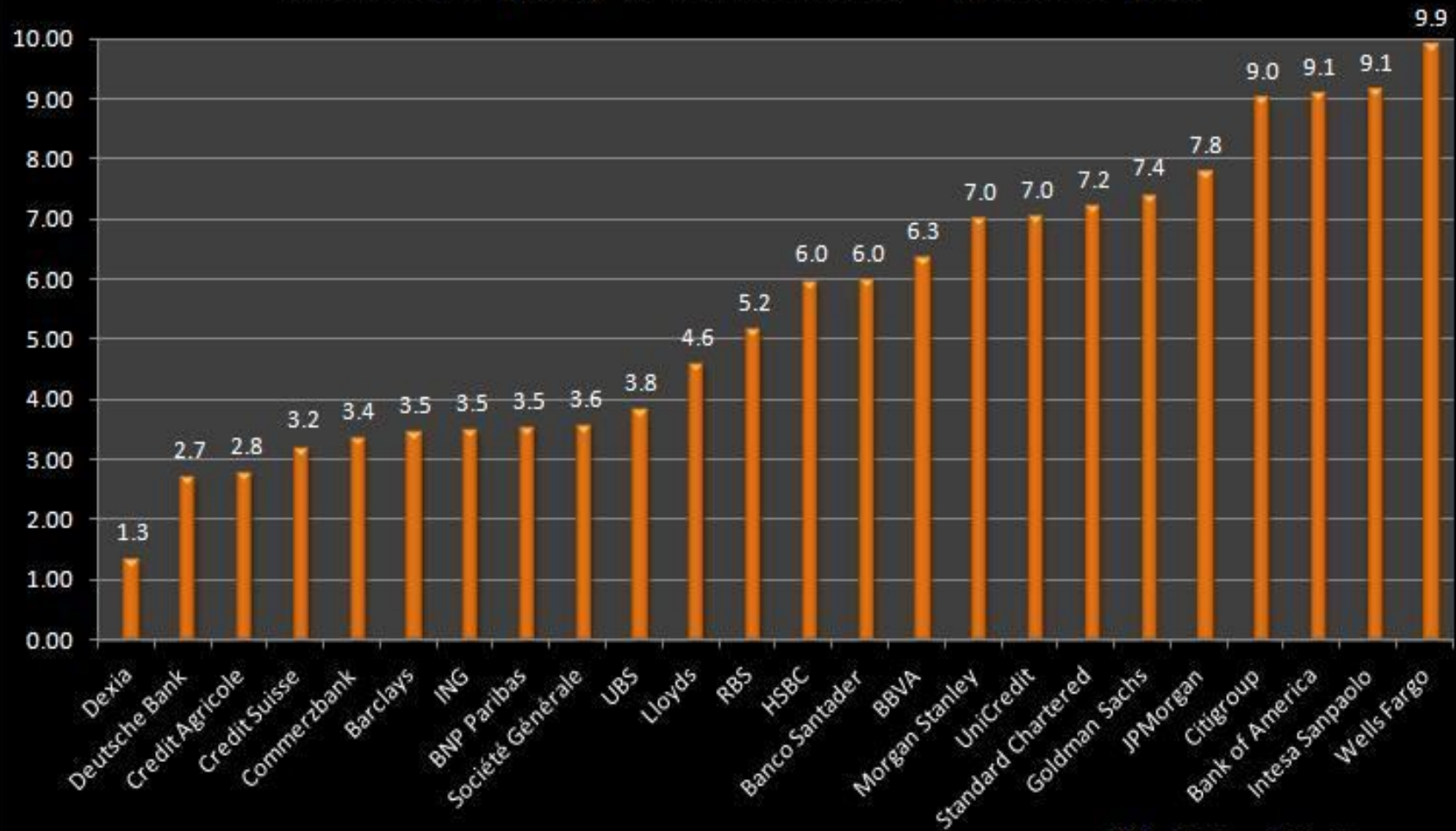
Source: SNL Financial, EIU

Map credit: Jesse Bellavance





## Common Equity to Total Assets - Q2 2011 (%)



Data Source: Milken Institute

Global Macro Monitor  
[macromon.wordpress.com](http://macromon.wordpress.com)

# Lessons Learned for Financial Markets

- Expect the unexpected
- Sovereign risks are slow to be recognized, but sentiment can turn quickly
- US may have less time than currently recognized to address fiscal challenges
- Beware of excessive leverage
- Banking sectors that are too big in relation to their economies pose serious risks to sovereigns
- Central banks are not risk-free either

# Key Challenges for Bank Risk Management in the Current Environment

- Developing an ***awareness*** of how the external environment is changing
- ***Understanding*** the current and potential impact on all aspects of the bank.
- ***Acting*** to reduce risk when necessary  
(disappointing your shareholders if necessary)



# Responsibilities of Boards for Risk Governance

- Accountability for risk management should be a priority for the whole institution.
- CEO owns the risk. Board has an essential oversight role
- Board should oversee all risk processes – including: ***understanding, awareness, acting.***

Thank You!